

PERAC AUDIT REPORT



Arlington

Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

October 22, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Arlington Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Arlington Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Martin Feeney and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2008	2007	2006
Net Assets Available For Benefits:			
Cash	\$432,713	\$345,793	\$333,441
Short Term Investments	3,912,729	184,040	746,502
Fixed Income Securities	0	28,824,007	31,115,124
Equities	0	12,268,291	13,677,294
Pooled Short Term Funds	0	60,322	69,550
Pooled Domestic Equity Funds	0	59,360,168	56,242,419
Pooled International Equity Funds	0	32,635,861	30,004,643
Pooled Domestic Fixed Income Funds	0	7,303,393	7,163,504
Pooled Alternative Investment Funds	4,257,702	3,795,825	2,562,082
PRIT Cash Fund	0	0	0
PRIT Core Fund	87,913,647	0	0
Interest Due and Accrued	4,548	276,503	324,311
Accounts Receivable	0	2,673	107
Accounts Payable	0	(30,906)	0
Total	<u>\$96,521,339</u>	<u>\$145,025,970</u>	<u>\$142,238,978</u>
Fund Balances:			
Annuity Savings Fund	\$26,079,791	\$25,498,600	\$24,385,378
Annuity Reserve Fund	11,664,520	11,132,771	11,430,256
Pension Fund	8,207,692	12,495,502	16,600,844
Military Service Fund	7,377	7,333	7,289
Expense Fund	0	0	0
Pension Reserve Fund	50,561,960	95,891,764	89,815,211
Total	<u>\$96,521,339</u>	<u>\$145,025,970</u>	<u>\$142,238,978</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$23,643,616	\$11,049,811	\$20,182,711	\$7,246	\$0	\$72,618,870	\$127,502,254
Receipts	2,961,655	331,894	8,107,793	43	772,804	17,199,215	29,373,404
Inter Fund Transfers	(1,644,240)	1,657,659	(10,544)	0	0	(2,874)	0
Disbursements	(575,653)	(1,609,107)	(11,679,116)	0	(772,804)	0	(14,636,680)
Ending Balance (2006)	24,385,378	11,430,256	16,600,844	7,289	0	89,815,211	142,238,978
Receipts	2,890,263	334,919	7,854,227	44	780,684	6,071,073	17,931,210
Inter Fund Transfers	(1,034,396)	1,030,180	(1,264)	0	0	5,479	0
Disbursements	(742,644)	(1,662,584)	(11,958,305)	0	(780,684)	0	(15,144,218)
Ending Balance (2007)	25,498,600	11,132,771	12,495,502	7,333	0	95,891,764	145,025,970
Receipts	2,930,630	341,003	8,115,677	44	697,584	(45,331,709)	(33,246,771)
Inter Fund Transfers	(1,950,196)	1,948,292	0	0	0	1,904	(0)
Disbursements	(399,243)	(1,757,546)	(12,403,487)	0	(697,584)	0	(15,257,860)
Ending Balance (2008)	<u>\$26,079,791</u>	<u>\$11,664,520</u>	<u>\$8,207,692</u>	<u>\$7,377</u>	<u>\$0</u>	<u>\$50,561,960</u>	<u>\$96,521,339</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2008	2007	2006
Annuity Savings Fund:			
Members Deductions	\$2,524,677	\$2,373,997	\$2,295,034
Transfers from Other Systems	148,003	211,944	391,466
Member Make Up Payments and Re-deposits	97,695	154,016	142,716
Member Payments from Rollovers	17,094	11,182	0
Investment Income Credited to Member Accounts	<u>143,161</u>	<u>139,124</u>	<u>132,438</u>
Sub Total	<u>2,930,630</u>	<u>2,890,263</u>	<u>2,961,655</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>341,003</u>	<u>334,919</u>	<u>331,894</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	190,333	183,295	238,006
Received from Commonwealth for COLA and Survivor Benefits	550,310	493,377	821,247
Pension Fund Appropriation	<u>7,375,034</u>	<u>7,177,556</u>	<u>7,048,540</u>
Sub Total	<u>8,115,677</u>	<u>7,854,227</u>	<u>8,107,793</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>44</u>	<u>44</u>	<u>43</u>
Sub Total	<u>44</u>	<u>44</u>	<u>43</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>697,584</u>	<u>780,684</u>	<u>772,804</u>
Sub Total	<u>697,584</u>	<u>780,684</u>	<u>772,804</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	50,791	103,073	50,091
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	11,977	2,465	1,277
Miscellaneous Income	2,000	10,653	11,808
Excess Investment Income (Loss)	<u>(45,396,476)</u>	<u>5,954,882</u>	<u>17,136,039</u>
Sub Total	<u>(45,331,709)</u>	<u>6,071,073</u>	<u>17,199,215</u>
Total Receipts	<u>(\$33,246,771)</u>	<u>\$17,931,210</u>	<u>\$29,373,404</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2008	2007	2006
Annuity Savings Fund:			
Refunds to Members	\$205,423	\$222,371	\$96,325
Transfers to Other Systems	<u>193,820</u>	<u>520,274</u>	<u>479,328</u>
Sub Total	<u>399,243</u>	<u>742,644</u>	<u>575,653</u>
Annuity Reserve Fund:			
Annuities Paid	1,755,037	1,659,311	1,602,679
Option B Refunds	<u>2,508</u>	<u>3,273</u>	<u>6,428</u>
Sub Total	<u>1,757,546</u>	<u>1,662,584</u>	<u>1,609,107</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	8,347,153	7,973,842	7,812,323
Survivorship Payments	665,708	637,375	606,734
Ordinary Disability Payments	141,773	145,874	167,334
Accidental Disability Payments	2,404,012	2,450,339	2,448,660
Accidental Death Payments	328,544	276,055	278,932
Section 101 Benefits	176,061	160,854	146,744
3 (8) (c) Reimbursements to Other Systems	205,854	197,780	122,927
State Reimbursable COLA's Paid	134,383	116,186	95,463
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>12,403,487</u>	<u>11,958,305</u>	<u>11,679,116</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	17,500	18,000	18,115
Salaries	125,026	120,663	117,365
Legal Expenses	15,824	22,191	16,875
Medical Expenses	287	174	472
Travel Expenses	5,590	1,669	11,226
Administrative Expenses	28,032	10,971	6,938
Furniture and Equipment	591	60	7,207
Management Fees	386,423	475,183	455,830
Custodial Fees	45,062	43,623	58,305
Consultant Fees	60,500	78,167	71,925
Service Contracts	4,901	2,375	1,607
Fiduciary Insurance	<u>7,848</u>	<u>7,608</u>	<u>6,938</u>
Sub Total	<u>697,584</u>	<u>780,684</u>	<u>772,804</u>
Total Disbursements	<u>\$15,257,860</u>	<u>\$15,144,218</u>	<u>\$14,636,680</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Investment Income Received From:			
Cash	\$236	\$754	\$1,804
Short Term Investments	62,618	90,440	44,910
Fixed Income	1,024,818	1,756,158	1,580,993
Equities	57,604	103,787	162,808
Pooled or Mutual Funds	16,600	9,887	6,787
Commission Recapture	0	0	0
Total Investment Income	<u>1,161,876</u>	<u>1,961,027</u>	<u>1,797,302</u>
Plus:			
Realized Gains	234,154	759,996	816,307
Unrealized Gains	15,291,595	26,927,238	27,792,480
Interest Due and Accrued-Current Year	<u>4,548</u>	<u>276,503</u>	<u>324,311</u>
Sub Total	<u>15,530,297</u>	<u>27,963,737</u>	<u>28,933,098</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(79,191)	(131,069)	(84,864)
Realized Loss	(2,573,362)	(862,846)	(320,347)
Unrealized Loss	(57,977,801)	(21,396,886)	(11,628,124)
Interest Due and Accrued - Prior Year	<u>(276,503)</u>	<u>(324,311)</u>	<u>(323,847)</u>
Sub Total	<u>(60,906,857)</u>	<u>(22,715,112)</u>	<u>(12,357,182)</u>
Net Investment Income (Loss)	<u>(44,214,684)</u>	<u>7,209,652</u>	<u>18,373,218</u>
Income Required:			
Annuity Savings Fund	143,161	139,124	132,438
Annuity Reserve Fund	341,003	334,919	331,894
Military Service Fund	44	44	43
Expense Fund	<u>697,584</u>	<u>780,684</u>	<u>772,804</u>
Total Income Required	<u>1,181,792</u>	<u>1,254,770</u>	<u>1,237,179</u>
Net Investment Income (Loss)	<u>(44,214,684)</u>	<u>7,209,652</u>	<u>18,373,218</u>
Less: Total Income Required	<u>1,181,792</u>	<u>1,254,770</u>	<u>1,237,179</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$45,396,476)</u>	<u>\$5,954,882</u>	<u>\$17,136,039</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$432,713	0.45%	100%
Short Term	3,912,729	4.1%	100%
Pooled Alternative Investment Funds	4,257,702	4.4%	10%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	87,913,647	91.1%	100%
Grand Total	<u>\$96,516,791</u>	<u>100.0%</u>	

For the year ending December 31, 2008, the rate of return for the investments of the Arlington Retirement System was -30.99%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Arlington Retirement System averaged -0.47%. For the 24-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Arlington Retirement System was 8.02%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Arlington Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

October 1, 2007

16.08

The Arlington Retirement Board may invest in the Barclays EAFE Equity Index Fund on a temporary basis. The Board had recently terminated its incumbent international equity manager, The Boston Company; after that firm's international equity portfolio management team suddenly departed the firm. The Board and its consultant determined that Barclays Global Investors offered the most cost-effective and efficient product for this temporary assignment. The manager has submitted the required regulatory documents. This temporary authorization extends through January 31, 2008.

January 11, 1996

20.03(1)

Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

20.03(2)

At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

February 15, 1995

20.04 (1)

United States based corporations and equities of foreign corporations

20.07 (5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

January 3, 1992

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4)

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 22, 1990

20.06(8)

Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(6)

Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve month period.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Arlington Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$708.60 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Arlington Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

October 18, 2002

Re - title of Fire and Police Signal Operators

Any member holding the title "Communication Dispatcher" with the job description supplied replace the positions of "fire or police signal operators", as stated in Chapter 32, § 3(2)(g) Group2.

January 30, 2002

Elections

The Arlington Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Arlington Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board. In the event of a vacancy, a new election shall be conducted to fill a vacancy as soon as practicable and the member elected shall serve for the unexpired portion of the vacant term.

March 21, 2000

Compensation

** It should be noted that the regulation in this section was based on the Laws and Regulations in effect during the time the regulation was approved. This regulation does not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.*

Regular compensation shall include:

- Base annual salary.
- Longevity pay.
- Cost of living adjustments.
- Educational incentives.
- Night and shift differentials.
- Holiday pay for public safety positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- Auto allowance paid in a lump sum(s) not in the form of a reimbursement.
 - Clothing allowance paid in a lump sum(s) not in the form of a reimbursement.
 - Tool allowance paid in a lump sum(s) not in the form of a reimbursement.
 - Salary paid for temporary promotions (working out of grade).
 - The portion of a deferred pay raise that is considered regular compensation (applies to employees as previously provided by Town Meeting votes).
 - Salary paid from federal grants which would otherwise be regular compensation.
- Regular deductions for retirement shall be made from regular compensation.

Regular compensation shall not include:

- Overtime pay
- Payment for unused sick leave.
- Payment for unused vacation.
- Payment for unused personal days.
- Bonuses
- Any payment received solely as a result of giving notice of retirement.

This supplemental rule further defines regular compensation and is consistent with the provisions of G.L. c. 32 and the Commission's regulations.

July 27, 2000

Policy on Membership

- All permanent full-time employees shall be eligible for membership in the Arlington Contributory Retirement System upon the date of employment.
- Provisional, temporary, temporary provisional, intermittent, and seasonal employees as defined by the Town's personnel department shall not be eligible for membership unless otherwise required by law.
- Any active or inactive member who becomes a temporary, intermittent, or seasonal employee shall continue to be a member of the Retirement System.
- Pursuant to G.L. c. 32, section 3(2)(vi), elected officials may choose to become members of the Retirement System. Such officials must apply for membership within ninety days of assuming office.

September 27, 2002

Travel Regulation

The Board has adopted a Supplementary Travel Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Ruth Lewis

Appointed Member:	Richard Keshian	Term Expires:	Until Successor Named
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Elected Member:	John J. Bilafer	Term Expires:	7/31/11
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Elected Member:	Kenneth Hughes	Term Expires:	7/31/11
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Appointed Member:	Ken Steele	Term Expires:	1/31/12
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary Liability
Ex-officio Member:)	And \$1,000,000 Fidelity Bond
Elected Members:)	MACRS Master Policy
Appointed Members:)	St. Paul Travelers, National Union
Staff Employee:)	Fire and Arch

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc as of January 1, 2008.

The actuarial liability for active members was	\$77,138,058
The actuarial liability for inactive members was	901,808
The actuarial liability for retired members and beneficiaries was	<u>114,154,885</u>
The total actuarial liability was	192,194,751
System assets as of that date were (actuarial value)	<u>144,810,881</u>
The unfunded actuarial liability was	<u>\$47,383,870</u>
The ratio of system's assets to total actuarial liability was	75.3%
As of that date the total covered employee payroll was	\$27,754,703

The normal cost for employees on that date was 8.5% of payroll

The normal cost for the employer was 4.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum
 Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	\$144,811,000	\$192,195,000	\$47,384,000	75.3%	\$27,755,000	170.7%
1/1/2007	\$136,510,000	\$186,069,000	\$49,559,000	73.4%	\$27,140,000	182.6%
1/1/2006	\$123,490,000	\$178,655,000	\$55,165,000	69.1%	\$26,338,000	209.5%
1/1/2005	\$112,721,000	\$173,251,000	\$60,530,000	65.1%	\$25,308,000	239.2%
1/1/2004	\$103,154,000	\$167,816,000	\$64,662,000	61.5%	\$23,948,000	270.0%

* The above table results are rounded in thousands of dollars

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	18	22	21	25	35	16	12	25	16	25
Ordinary Disability	1	0	0	0	2	2	1	1	0	0
Accidental Disability	2	0	1	3	1	0	1	4	4	3
Total Retirements	21	22	22	28	38	18	14	30	20	28
Total Retirees, Beneficiaries and Survivors	592	604	605	609	622	628	615	623	647	659
Total Active Members	697	700	719	762	684	748	685	712	713	699
Pension Payments										
Superannuation	\$5,254,608	\$5,617,951	\$6,003,744	\$6,418,063	\$7,153,554	\$7,384,173	\$7,430,373	\$7,812,323	\$7,973,842	\$8,347,153
Survivor/Beneficiary Payments	409,650	411,394	468,512	498,696	539,199	574,894	598,146	606,734	637,375	665,708
Ordinary Disability	74,687	64,316	48,555	40,613	67,344	85,546	95,468	167,334	145,874	141,773
Accidental Disability	1,904,519	1,977,214	1,972,293	2,005,014	2,048,667	2,094,517	2,168,914	2,448,660	2,450,339	2,404,012
Other	515,133	561,422	562,286	637,463	633,989	648,109	749,734	644,065	750,875	844,841
Total Payments for Year	<u>\$8,158,597</u>	<u>\$8,632,297</u>	<u>\$9,055,390</u>	<u>\$9,599,849</u>	<u>\$10,442,753</u>	<u>\$10,787,239</u>	<u>\$11,042,635</u>	<u>\$11,679,116</u>	<u>\$11,958,305</u>	<u>\$12,403,487</u>

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